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MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1943

AND

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1943

February 23, 1944

To the Stockholders of

MANGEL STORES CORPORATION

The Profit and Loss Account for the year ended December 31, 1943 and the Consolidated Balance Sheet are presented herewith.

The Company had 97 stores in operation at the end of 1943. No change has taken place during the year.

Increase in volume for the chain was 33%. With the curtailment by the W.P.B. of new construction, necessary repairs were made where needed. We managed to keep all units in good condition.

Four regular dividends of $1.25 each were paid on the preferred stock during the year, and in addition a payment of $3.50 was paid on account of arrears.

Working capital increased from $1,316,707 in 1942 to $1,706,992 in 1943. The cash balance at December 31, 1942 was $688,731 and in 1943 $1,231,426. However, bills payable in 1942 were $281,608 and in 1943 $320,298. Inventory increased from $1,599,282 in 1942 to $1,639,347 in 1943.

In spite of the very large increase in City, County, State and Federal taxes,—the improvement in net profit was the result of a substantial increase in volume, lower operating expense and lower markdowns.

The volume in January 1944 increased 7.1%.

At this time no one can predict what the future has in store. Every endeavor will be made to appraise the situation from time to time and take the necessary steps to keep the Company in a good financial position.

Respectfully submitted,

SOL MANGEL,
President.

MANGEL STORES CORPORATION

AND SUBSIDIARIES

EXHIBIT A

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1943

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand			$1,231,426.64
United States Bonds and Treasury Certificates—at cost plus accrued interest			1,070,285.10
Accounts receivable—less reserve (including employees' accounts)			477,773.32
Merchandise inventory—at the lower of cost or market, based upon the retail method of inventory valuation			1,639,347.73
TOTAL CURRENT ASSETS			4,418,832.79
OTHER ASSETS:			
Loans to officers and employees—less reserve		$ 8,160.09	
Cash balances, certificates of participation, etc.—suspended banks—less reserve		1.00	
Sundry deposits		2,334.90	
Post-war refund of excess profits tax		247,214.54	257,710.53
FIXED ASSETS:			
Real estate—at value as appraised for the management in June 1932, with subsequent additions at cost, subject to mortgage shown contra	$ 87,960.00		
Less: Reserve for depreciation	12,961.20	74,998.80	
Furniture and fixtures, leasehold improvements and truck—at values appraised for the management in June 1932, with subsequent additions at cost	1,589,029.01		
Less: Reserve for depreciation on additions subsequent to June 1932	780,752.57	808,276.44	883,275.24
DEFERRED CHARGES:			
Unexpired insurance		31,767.42	
Prepaid taxes, expenses, etc.		52,845.55	
Stationery and supplies		25,516.90	110,129.87
GOODWILL			1.00
			$5,669,949.43

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—merchandise, less discounts			$320,298.69
Accounts payable—expenses, taxes, etc.			498,099.09
Customers' credits			69,817.03
Mortgage installments payable within one year			2,000.00
Reserve for Federal income and excess profits taxes		$1,885,100.00	
Less: Federal tax anticipation notes—at cost, plus accrued interest		63,474.00	1,821,626.00
TOTAL CURRENT LIABILITIES			2,711,840.81
MORTGAGE PAYABLE IN INSTALLMENTS THROUGH OCTOBER 8, 1945, LESS CURRENT INSTALLMENTS SHOWN ABOVE			22,000.00
CAPITAL STOCK AND SURPLUS:			
Convertible Preferred Stock—$5.00 Cumulative, No Par Value—Stated Value $25.00 per Share—entitled to $100.00 per share and accrued dividends in the event of liquidation—Notes A and C:			
Authorized and issued 17,500 shares	$437,500.00		
Less: In treasury 3,968 shares	99,200.00		
Outstanding 13,532 shares		338,300.00	
Common Stock—Par Value $1.00 Per Share—Note B:			
Authorized 300,000 shares			
Issued 177,500 shares	177,500.00		
Less: In treasury 745 shares	745.00		
Outstanding 176,755 shares		176,755.00	
		515,055.00	
Surplus—Exhibit B—Notes A and D:			
Capital surplus	548,573.00		
Earned surplus—since January 1, 1936	1,872,480.62	2,421,053.62	2,936,108.62
			$5,669,949.43

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

Note A — The company has been advised by its counsel that, in his opinion, there are no restrictions upon the surplus of the company by reason of the difference of $1,150,220.00 between the liquidation value of its convertible Preferred Stock outstanding and the stated value thereof. The Board of Directors, by a resolution dated November 10, 1943, expressed their intention at that time not to impair the capital surplus of the company and its subsidiaries as at December 31, 1942 by the payment of dividends (at December 31, 1942, the consolidated capital surplus amounted to $681,150.50 and was reduced during the year by $132,577.50 representing the excess of the cost over the stated value of convertible Preferred Stock purchased for the treasury). It is contemplated that the Board of Directors, whenever, in its opinion, the earnings and the then financial condition shall warrant the same, will declare dividends from earnings or earned surplus account without regard to the fact that the excess of aggregate liquidation value of convertible Preferred Stock over its aggregate stated value may be greater than the sum of the par value of the Common Stock and surplus.

Note B — 105,000 shares of Common Stock, par value $1.00 per share, are reserved in connection with the conversion privilege granted to holders of the convertible Preferred Stock.

Note C — As at December 31, 1943, cumulative dividends on the outstanding convertible Preferred Stock, amounting to $10.00 per share or an aggregate of $135,320.00, had not been declared or paid.

Note D —The consolidated earned surplus includes undistributed earnings of subsidiaries which may be subject to Federal taxes on income if and when received by the parent company in the form of dividends.

General — The accompanying statements are subject to final determination of the liability for Federal income and excess profits taxes.

EXHIBIT B

MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1943

CAPITAL SURPLUS — NOTES A AND D:		
Balance at January 1, 1943	$ 681,150.50	
Less: Excess of cost over stated value of treasury stock acquired during the year	132,577.50	
CAPITAL SURPLUS AT DECEMBER 31, 1943		$548,573.00
EARNED SURPLUS (since January 1, 1936)—Notes A and D:		
Balance at January 1, 1943	1,193,199.58	
Add: Consolidated net income for the year ended December 31, 1943—Exhibit C	799,748.04	
	1,992,947.62	
Less: Dividends paid on preferred stock at the rate of $8.50 per share	120,467.00	
EARNED SURPLUS (since January 1, 1936) at December 31, 1943		1,872,480.62
		$2,421,053.62

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

EXHIBIT C

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1943

Net sales				$20,684,145.94
Cost of sales, general, administrative and selling expense				18,031,057.31
Net operating profit, before provision for depreciation				2,653,088.63
Provision for depreciation				161,093.04
Net profit, before other income and other charges				2,491,995.59
Other income				22,420.58
				2,514,416.17
Other charges				33,199.38
Consolidated net profit before provision for Federal income and excess profits taxes				2,481,216.79
Provision for Federal Income and Excess Profits Taxes:				
Normal income tax and surtax			$120,754.68	
Excess profits tax (after deducting debt retirement allowance of $1,599.10)		$1,732,527.65		
Deduct: Post-war credit	$173,412.68			
Less: Debt retirement allowance	1,599.10	171,813.58	1,560,714.07	1,681,468.75
Consolidated net profit transferred to surplus—Exhibit B				$799,748.04

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS
MANGEL STORES CORPORATION
NEW YORK, N. Y.

We have examined the consolidated balance sheet of the Mangel Stores Corporation and its subsidiaries as at December 31, 1943, and the consolidated statements of surplus, and income and profit and loss for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of surplus, and income and profit and loss, together with the Notes to Accounts, present fairly the consolidated position of the Mangel Stores Corporation and its subsidiaries at December 31, 1943, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

NEW YORK, N. Y.
February 17, 1944

S. D. LEIDESDORF & CO.